The Business Plan as a Significant Planning Tool and Extension of its Use within Small and Medium Enterprises in Slovakia.

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Abstract

The business plan is seen as a complex structured document, that provides logical and factual answers to individual questions about the business. These questions are key to a successful start-up and implementation of long-term business activities. The aim of our studies is to identify the extent of use of a business plan as an important planning document in SMEs. There are many business owners who do not have a business plan and pay little attention to their planning activities. To better understand how the Slovak entrepreneurs perceive planning, we conducted a questionnaire survey. This reveals very interesting findings about the attitudes of Slovak businessmen to planning and planning documents. Survey results and recommendations are key part of our article

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1. Introduction and theoretical fundamentals

What is a business plan? This word sentence with many meanings is mostly understood as comprehensive structured document, which corresponds to the basic business questions about future entrepreneur's strategy: What do I want to do? For whom do I want to do it? Who are my competitors? How will I begin? How much money do I need? What are the risks? How will I succeed? The business plan is actually a description of opportunities and a list of supporting arguments. It is a document, which contains information on what are our expectations from the business. It is clear that pertinent answers to the above questions are crucial for a successful start-up business venture.\textsuperscript{2}

A business plan is often called as a roadmap you need to help you reach your goals. According to Udo Wupperfeld, „Business plan is a conception of the enterprise in a written form.\textsuperscript{3} „The entrepreneur needs to prepare a business plan, or, as it is occasionally referred to, a feasibility study.\textsuperscript{4}

The business plan is interestingly defined by Edward Blackwell\textsuperscript{5}. In the introduction to his book he compares starting up a business to a rainforest treasure expedition. The vast majority of today's entrepreneurs are certainly on an adventurous quest for the treasure. As any expedition, also any business can result into a catastrophe, but also into finding the treasure. Each entrepreneur on an expedition will certainly need help in form of a plan of the expedition, in our case a business plan.

A business plan has two dimensions. Firstly it is the planning process, secondly the creation of written document. It is not enough to have the business plan in your head, it must be put in writing. Ideal as a comprehensive document with structure and content covering the key areas in the business.

"It is still the case that the Slovak entrepreneur considers business plan for mandatory exercise, or even an administrative formality."\textsuperscript{6} This citation is from year 1995. It is well known that also nowadays (after more than twenty years of market economy existence in Slovakia), compiling a business plan before starting a business is not

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common in Slovakia. A business plan is often incorrectly perceived as a finance planning document, mainly needed for getting funds to start the business. The use of business plan is much wider.

Often featured important functions of a business plan⁷:
- Function introspection
- Identification of key feasibility arguments
- Risk assessment
- Setting goals and strategies
- Planning and control function
- Obtaining funding

It is therefore important to realize that a well prepared business plan has many other beneficial features than obtaining financing.

One of the key issues which have to be discussed in business plan is the goal, the real aim of being an entrepreneur. Naturally, the goal of any business is an adequate profit. But money is not, respectively, should not be the sole objective of business. One of the most respected businessmen of present times, Sir Richard Branson, publicly declares that he does not start any of his business just for earning money.

Compiling a business plan can help the entrepreneur to define his motivations, expectations and needs. Does he want to do business because of the need for independence, because of innate individualism, due to the desire to achieve something or to fulfill a childhood dream? Or does he want to take on the greatest level of responsibility, or to be really beneficial to human society? The business plan provides space for answering similar questions and identifying the expectations from running a business.

Company Ernst & Young claims a business plan serves these three functions⁸:
- Determining future projects
- Determining how well goals have been met
- Raising money

According to David H. Bangs, in his book Business Planning Guide, there are three main reasons for creating a written business plan. The plan forces the entrepreneur to take an objective, critical, unemotional look at his business project, it helps him manage the business and it communicates his ideas towards others.⁹

"In today's environment, a business plan is an entrepreneur’s most crucial business document. No company can expect to articulate its goals or to secure financing without a well-conceived and well-presented business plan."¹⁰

World-known American president Eisenhower said: “In preparing for battle I have always found that plans are useless, but planning is indispensable”.¹¹

Drawing up a business plan therefore undoubtedly brings many positives, either in the planning, management, or supervisory process. It is important to note that a business plan is one of the planning documents of the company and its contents should not be rigid. On the contrary, its character is very dynamic. The business plan should be updated on a regular basis. "Despite many valuable benefits, thousands of would-be entrepreneurs still attempt to start without a business plan"¹².

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¹¹ Available at: http://quotationsbook.com/quote/30465/#sthash.2HjLEgJL.dpuf
„Whatever difficulty the preparation of a business plan may present, a plan is an absolute necessity for any business.“\textsuperscript{13} However, drawing up a business plan is mostly not too complicated and does not require more than a couple of hours. „One of the principal reasons for business failure is the lack of an adequate business plan.“\textsuperscript{14}

2. Aim of the research and Methodology

The main objective of the research report is to analyze the use of business plans as planning tools among small businesses in Slovakia. The main research method results as a consequence of the formulated problem and of the main objective of the research report. Secondary analysis of literature was selected as one of the research methods. The significant method used, however, is considered to be the questionnaire survey.

Basic information about the research:
- Assignment: analysis of the use of business plans among Slovak entrepreneurs
- Type of the research: quantitative representative survey
- Basic survey group: micro-enterprises and small enterprises in Slovakia
- Questioning method: on-line survey questioning
- Size of the sample: 104
- Questioning period: February 2013– March 2013

3. Survey results

There are various myths which are supported by the theory and practice dealing with business plans. The most common myths:
- Entrepreneurs write their plan in case they need money (from a bank or other institution)
- Entrepreneurs are too busy to write a business plan.
- Most of entrepreneurs let external entities to develop the business plan for them.

We managed to challenge these myths thanks to the results of the questionnaire survey, which provides, besides the other things, the following facts:
- Only 16\% of entrepreneurs set up a business plan because they requested financial support from a bank or other institution.
- Only 7\% of them stated that they have not developed a business plan due to the lack of time.
- 78\% of entrepreneurs who have a business plan consider it to be a reasonable step and 60\% update the plan regularly!
- Only 2\% of entrepreneurs stated that they regret the setting up of a business plan.

Table 1: Did you develop your business plan? – The answers according to the legal form.

<table>
<thead>
<tr>
<th>Did you develop your business plan?</th>
<th>s.r.o. (limited liability company)–one of several shareholders</th>
<th>s.r.o. (limited liability company)–sole proprietor</th>
<th>Self-employed person</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>23</td>
<td>12</td>
<td>10</td>
<td>45</td>
</tr>
<tr>
<td>No</td>
<td>20</td>
<td>14</td>
<td>25</td>
<td>59</td>
</tr>
<tr>
<td>Total</td>
<td>43</td>
<td>26</td>
<td>35</td>
<td>104</td>
</tr>
</tbody>
</table>

Figure 1: Did you develop your business plan? When did you develop it?

We can see that only 26.9% of entrepreneurs – i.e. only one of the four developed a business plan before starting a business. More than a half (56.7%) did not develop a business plan at all.

Figure 2: What were your reasons for developing a business plan? (Respondents could select more than one answer.)

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We can see that only 26.9% of entrepreneurs – i.e. only one of the four developed a business plan before starting a business. More than a half (56.7%) did not develop a business plan at all.
The key discovery is that only 16% of respondents who developed a business plan did so because requesting financial support. On contrary, 82% of respondents stated that they wrote a plan because of their own needs. In the Figure 3 we can see that only 4% of respondents used services of external entities while preparing the plan.

![Figure 3: How did you develop your business plan?](image)

Figure 3: How did you develop your business plan?

![Figure 4: Why have you not developed a business plan?](image)

Figure 4: Why have you not developed a business plan?

We can see that entrepreneurs knowingly do not develop a business plan because they consider their business to be simple (39%), or they do not consider that to be relevant (29%) and their business is doing good also without a plan (27%). Only 12% stated that they did not have time to develop a plan. Let us shortly describe some of the recent projects.
We can see that only 2% of entrepreneurs stated that they regret the setting up of a business plan. 78% of them consider the developing of a business plan to be a reasonable step.

4. Conclusion

Many theorists deplore having a business plan and consider it to be obsolete. We certainly agree that business plan is not a static document, but rather dynamic. Nevertheless, it is a significant help for an entrepreneur, which does not cost him anything except a few hours of time spent preparing it. If an entrepreneur has written a business plan, it certainly does not make any damage. Of course, if he does not adhere to it rigidly and updates it regularly regarding the external environment development. Our research confirmed that entrepreneurs do not perform enough of planning activities, but they have their reasons for it. On the contrary, those entrepreneurs who developed a plan, consider it to be a reasonable step (78% of respondents). Only 2% state that developing a business plan proved to be unnecessary. Investment in the form of 4 – 6 hours of developing it will not be worthless in any case!

References

Quote retrieved May 15, 2013 from: http://quotationsbook.com/quote/30465/#sthash.2HjLEgJL.dpuf
The business plan is often the main method of describing a company to external audiences such as potential sources for financing and key personnel being recruited. It should assist outside parties to understand the current status of the company, its opportunities, and its needs for resources such as capital and personnel. It also provides the most complete source of information for valuation of the business. Business Planning Principles. Business Plan Communication Principles. In some cases, much of the essential initial research should be included in the developing business plan as its own separate section to help build the case for readers that there is a market need for the business being considered and that it stands a good chance of being successful. The business plan covers what you intend to do with your business and how it will be done. The process of writing down what is involved in bringing your idea to reality requires dealing with the why, what, who, how, where, when, and how much of your venture. Writing a business plan forces you to take a deep look at your idea and how you will turn it into a business. Doing so helps you recognize areas that need rethinking or support. As a communication tool, a carefully developed plan will provide something that other people can react to. You can use their insights to help you develop a more successful venture. Who Should Write the Plan? See Purdue Extension publication Estimating Breakeven Sales for Your Small Business (EC-725) for more information on this topic. Distribution. Business plan is a document that accurately and clearly describes the main objectives of the business, the conditions for achieving them; he must prove the effectiveness of making an investment decision for his potential participants. Developing a business plan allows you to solve the following tasks: establish target markets and the place of the enterprise in these markets; formulate the long-term and short-term objectives of the enterprise, as well as the strategy and tactics for achieving them. The composition of the business plan and the degree of its detail depend on a number of factors, which include: the scale of the project, the purpose of the project, the degree of risk, etc. The business plan structure includes the following sections: 1. Summary. Making adjustments to your business plan will help you avoid harming cash flow or creating an unexpected loss. Keep debt to a minimum and create a plan that will start lowering that debt load as soon as possible. If you rely on all your income from one or two clients, your financial risk could be significant if one or both no longer use your services. Start marketing your services to diversify your base so the loss of one won't devastate your bottom line. 5. Reputation Risk. Additionally, it's important to keep an eye on the competition by regularly researching how they use online and social media channels. Accept, But Plan. Although you will never be able to completely eliminate business risk, proactively planning for it can help.